

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

BOARD ACTIONS OCTOBER 6, 1999

5th NCUSIF Dividend Approved & No Premium Assessed for 2000

The NCUA Board approved a 2 7/8 percent dividend to lower the Fund's equity ratio to the current statutory 1.3 percent operating level by Dec. 31, 1999. Dividend payments, 91 percent via electronic transfer and 9 percent via check, totaling \$88.3 million were issued to federally insured credit unions Oct. 15, 1999. Since the Fund was capitalized in 1985, approximately \$551 million in dividends has been returned to federally insured credit unions.

The Board also waived an insurance premium assessment for 2000 based on the safe level of the Fund and next year's operating projections. Only one insurance premium has been assessed (in 1992) since the Fund was restructured in 1985. (Chart of insurance premiums waived is on page 6.)

Insurance Fund Rule & Year 2000 Operating Level Finalized

The NCUA Board approved final amendments to Part 741.4, overseeing and maintaining federal insurance and the normal operating level of the Na-

tional Credit Union Share Insurance Fund (NCUSIF) based on *Credit Union Membership Access Act* requirements. The NCUA Board set the Fund's operating level at 1.3 percent for Year 2000. The Board selected the 1.3 percent level from the prescribed range of not less than 1.2 and not more than 1.5 percent of insured shares. The primary rule changes to Part 741.4, effective January 1, 2000, include:

- Federally insured credit unions under \$50 million in assets will continue making annual deposit adjustments while credit unions with \$50 million or more in assets will semiannually adjust their deposit level.
- The NCUA Board may assess a premium no more than twice a year if the NCUSIF equity ratio is below 1.3 percent. A premium will be assessed if the equity level drops under 1.2 percent.

Based on insured shares at year end, the NCUA Board will distribute NCUSIF equity to all insured credit unions after

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Revolving Loan Fund Gains \$1 Million

President Clinton signed the fiscal 2000 VA HUD Appropriations Bill October 20, 1999, adding \$1 million to the Community Development Revolving Loan Program. After many years, 1979 to 1995, with no funds added, this is the fourth consecutive annual addition and brings the Revolving Loan Program total to \$11 million.

Individual community development credit unions can borrow up to \$300,000 of these funds to accomplish specific goals in their communities. The money is designated to assist credit unions fund new programs and stimulate economic development — increase income, education, home and business ownership and employment opportunities for credit union members.



October 25, 1999 — Chairman Norman E. D'Amours with Vice President Gore at the dedication of St. Mary's Bank Credit Union Museum, Manchester, N.H., home of the nation's first credit union. During the ceremony, Chairman D'Amours presented the museum with a photograph and the pen President Bill Clinton used to sign the *Credit Union Membership Access Act* of 1998.

News Briefs

Electronic Financial Services — NCUA plans to develop examination procedures for reviewing information service providers and will enhance our vendor database to include additional risk management information. NCUA's electronic financial services plan will also be integrated with NCUA's latest strategic plan.

AIRES Updated — NCUA plans to unveil AIRES 2000, an updated examination program, during the second quarter of 2000, provided the new computers approved at the October Board meeting have been configured and thoroughly tested. Parallel field examinations and tests using new computers and the new AIRES program are now underway.

Prompt Corrective Action — Continuing to address provisions of the *Credit Union Membership Access Act*, an NCUA subcommittee is in the process of defining a complex credit union and establishing risk-based capital requirements for complex credit unions. A proposed rule will be considered by the NCUA Board early in 2000.

Liquidity Response Plan — NCUA is utilizing a balance-sheet liquidity analysis

model that uses 5300 data to help identify credit unions with potentially weak liquidity to track possible needs for contingency funding. In addition, to supervise contingency funding needs, NCUA developed a list of credit unions that report no external funding sources.

CLF Earnings — CLF investment earnings totaled \$3.75 million in August, a 22 basis point increase over July, primarily due to an increase in the rates on overnight and redeposit accounts and \$8.7 million added to the redeposit account.

Failures YTD — Through September, 12 credit unions failed in 1999. Eight were involuntary liquidations and four merged with assistance. Four of the involuntary liquidations were purchase and assumptions. Year-to-date, failures have cost the Share Insurance Fund \$2.9 million.

to examine ways to expand credit union service in Latino communities will be considered in relevant policy and rulemaking initiatives.

Who and What: Board Member Dennis Dollar will participate in a satellite broadcast dealing with Prompt Corrective Action. Mr. Dollar will cover NCUA's statutory responsibility in implementing Prompt Corrective Action provisions in



October 2, 1999 — NCUA Chairman Norman D'Amours and Senate Banking Committee Chairman Phil Gramm (R-Texas) catch up on old times prior to their separate addresses to the NAFCU Congressional Caucus in Washington. They worked closely together during the early 1980's while both served in the U.S. House of Representatives.

NCUA News

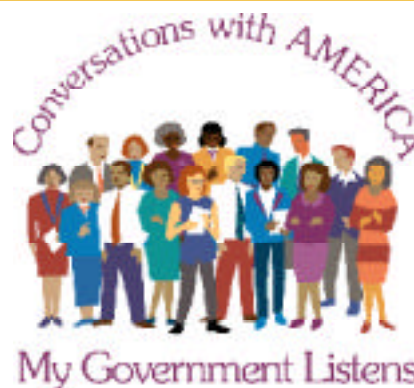
NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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Who and What: Board Member Yolanda Townsend Wheat will offer the keynote address at the first Latino Credit Union Conference.

When: Saturday, November 20 at 8:30 a.m.

Where: Saint Anthony Hotel, San Antonio, Texas.

Why: To gather information from Latino credit union volunteers and managers for the purpose of expanding access.

Contact: Rosemary George at 703-518-6309 or email rgeorge@ncua.gov.

Who and What: Chairman Norman E. D'Amours will address the First Latino Credit Union Conference.

When: Saturday, November 20, 1999.

Where: Saint Anthony Hotel, San Antonio, Texas.

Why: Input from participants gathering

the *Credit Union Membership Access Act*.

When: Wednesday, December 8, 1999.

Where: WETA TV, Shirlington, Va.

Why: Participant feedback will be solicited and considered on this and any other NCUA initiative or policy.

Contact: Kirk Cuevas for additional information at 703-518-6306 or email jcuevas@ncua.gov.

Who and What: NCUA Board Member Yolanda Townsend Wheat will speak to the Metropolitan Area Credit Union Managers Association of Washington, D.C.

When: Monday, December 13 at 7:00 p.m.

Where: Tyson's Corner, Virginia.

Why: To gather information from D.C. metropolitan area credit union managers for the purpose of expanding access.

Contact: Rosemary George at 703-518-6309 or email rgeorge@ncua.gov.

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the conclusion of each calendar year when the Fund's available asset ratio exceeds one percent and the Fund exceeds its normal operating level.

New Bylaw Manual Approved

The NCUA Board approved release of an updated, easy to read *Federal Credit Union Bylaw Manual* that deletes outdated provisions and consolidates FCU bylaws and nonstandard bylaw amendments into a single manual.

Although credit unions are encouraged to adopt the revised bylaws, adoption is not mandatory. If necessary, federal credit unions can retain provisions from their old bylaws and adopt parts of the new. Additionally, credit unions can still request a nonstandard bylaw amendment through their regional office.

Three specific provisions that were changed based on commenter recommendations include:

1. Restrictions on loans to non-natural persons are excluded from the final bylaws.
2. Boards of directors are required to have only one face-to-face board meeting annually.
3. Definitions of "immediate family member" and "once a member always a member" are included.

Proposing IRAs in U.S. Territories

The NCUA Board issued a proposal, with a 60-day comment period, that would permit federal credit unions located in U.S. territories or possessions, such as the Commonwealth of Puerto Rico, to act as a trustee or custodian for Individual Retirement Accounts (IRAs) and Keogh accounts for their members. These accounts would be insured separately from the member's other credit union accounts.

Laptop Computer Leasing Approved

The NCUA Board approved establishing a three-year lease agreement to



October 5, 1999 — Board Member Yolanda T. Wheat with Congressman John LaFalce (D-NY), Ranking Democrat on the House Banking Committee, at the National Association of Federal Credit Union's Congressional Caucus in Washington, D.C. Wheat's address on ways to increase access to credit union services followed LaFalce's speech on the need for legislation protecting privacy.

provide all NCUA employees with new laptop computers and peripherals by June 2000, and the Board approved a regular three-year replacement leasing cycle.

Replacing the various types of machines that NCUA employees have used for the past three or four years with laptops will improve user satisfaction and the Office of Technology & Information Systems' support by simplifying and standardizing the computers utilized. Providing each staff member with a laptop computer is a step in meeting anticipated future needs by adding flexibility in our computing environment and mobility for quality of life initiatives.

Using leased equipment is slightly less costly over a period of three years and leasing allows for better cash management and predictable budgeting for capital items on an annual basis. Plus, non-performing equipment can be replaced during the life of the lease. Current industry expectations and depreciation standards set three years or less as the useful life of a computer.

Replacing leased equipment on a three-year cycle should help to reduce staff downtime, frustration and inconvenience that is often tied to aging equipment. It provides for the benefits of fast, dependable equipment and communication capabilities as well as for the new features and software supported by up-to-date hardware plus manufacturer warranties.

Expansion Appeal Denied

The NCUA Board upheld the Region III Director's decision to deny an expansion request from Jackson VA Federal Credit Union, Jackson, Miss., based on the group's failure to meet the "reasonable proximity" requirement of the FCU Act. The \$42.8 million credit union applied for a field of membership expansion to add employees of the National Park Service, Natchez Trace Parkway, who are paid or supervised from Tupelo, Miss. Tupelo is 176 miles from Jackson.

Personal Property Leasing Proposal Issued

The NCUA Board issued a second proposal on easing the personal property leasing rule. Open for a 60-day comment period, this second proposal:

- Authorizes federal credit unions to engage in either direct or indirect leasing and either open-end or closed-end leasing of personal property to members if leasing arrangements are the functional equivalent of secured loans.
- Formalizes NCUA's position, stated in legal opinion letters, that federal credit unions do not have to own the leased property in an indirect leasing arrangement.
- Requires federal credit unions to take specific steps to obtain and perfect a security interest in the leased collateral when the title of leased property rests with a third party.

Final Statutory Lien Rule Issued

The NCUA Board adopted final rule Part 701.39 implementing the statutory right of federal credit unions to impress a lien against the shares and dividends of a member to satisfy outstanding financial obligations to the credit union even when these obligations are not secured by shares. FCUs must disclose to members in advance that the credit union has the right to impress a statutory lien and may enforce it without further notice. The rule is effective 30 days after publication in the *Federal Register*.



Questions and Answers on Year 2000 Communication Efforts

NCUA has received a number of questions concerning Year 2000 communication efforts. We believe during the next two months credit unions must ensure their communication efforts are effective. To help, here are a few of the questions we have received along with our responses.

Why emphasize member awareness campaigns now? The Y2K headlines appear to have decreased through the summer months.

Year 2000 media coverage is expected to increase during the next two months. Isolated incidents will undoubtedly be targets for media sensationalism. It is likely that mainstream news media will begin to run features on the century date rollover, providing coverage to all aspects of this news event — preparations, extremist views, public confidence and the like. Credit unions must be ready to respond to member concerns as we get closer to the Event Weekend.

What hard data exists regarding actual consumer perception of Y2K as it relates to financial institutions?

A recent Gallup Poll revealed:

- 76 percent of people surveyed believe their financial institution will “definitely” or “probably” solve the Y2K problem by year-end.
- 42 percent believe ATMs will not work.
- 38 percent believe check processing will be impacted.
- 47 percent believe people will panic and withdraw all of their funds from financial institutions.

Many consumers are expecting serious financial system problems. Thus, members need to be continually reminded of the credit union’s overall readiness. Often, perception is reality. Credit unions must work to ensure their members have a substantial information base for developing perceptions of their credit union.

Wouldn’t it be more effective for credit unions to simply address member Y2K questions on a flow-basis rather than publish more Y2K information?

In addition to having staff available to address specific member inquiries, credit unions should take proactive steps to keep their member-owners well informed. Board directors are stewards of the credit union and have a responsibility to ensure that members receive sufficient information of their credit union’s Year 2000 readiness. Credit unions that wait for members to initiate Year 2000 communication will be putting themselves into a position of explaining why Year 2000 will not impact the credit union, rather than asserting positive information about their credit union’s readiness.

Is Y2K communication really needed if no member inquiries are being received?

One credit union consultant recently made the following point at a league function:

“Don’t assume silence is bliss. If your members aren’t talking with you about Y2K, chances are they’re talking to someone else, jeopardizing the credibility and trust the credit unions have worked so hard to secure with their membership. Honor the trust your members have in the credit union by giving them all the information they need to maintain that confidence.”

What kind of information is prudent to disclose to members?

Credit unions must develop effective communication plans based on the knowledge of their audience. It may be necessary to develop several communications plans, each being targeted to different segments of the membership. In the words of a credit union consultant:

“Details are not comforting. If I haven’t asked you for Y2K information and you tell me you are testing 11,000 systems, the lingering question is whether you’ll make it in time.”

“The key points you want to stress are:

- you take the issue seriously,
- you’ve been working on the issue for so many months or years, and
- you are on schedule.”

“If you come out with a statement that says ‘we’re ready’, define what ‘ready’ means. Ultimately, credit unions should seek to craft Y2K messages that are consistent, convey competence, and instill confidence.”

How should the information be communicated to members?

Each credit union is in the best position to determine the most effective communications method for their membership. Some methods to consider include:

Printed Communications

- Credit Union/Sponsor Newsletter messages.
- Statement stuffers.
- Statement messages.
- Y2K messages on cash envelopes.
- Y2K readiness slogans and graphics.
- Credit Union developed Y2K pamphlets at lobby/teller stations.
- Y2K pamphlets developed by trade groups.
- NCUA Y2K Pamphlets.
- Y2K surveys for members to rate their confidence in the credit union’s Y2K readiness.

Committee Formed to Look at the Examination Program's Future

To plan the future examination program, NCUA recently formed a Future Examination Process Committee. The committee's goal is to evaluate all aspects of our examination process and determine what, if any, changes need to be made to develop the most efficient examination process that will effectively monitor the safety and soundness of tomorrow's credit unions.

The committee stems from NCUA's draft strategic plan, which calls for NCUA to review and change the way the agency does business. Over the years, the credit union system has experienced changes in the economy, in products and services and methods of delivering those products and services, and in the risks associated with doing business. In many ways, examiners perform examinations using the same strategies and methods developed years ago. This may not be the most effective way to identify and address the risks that exist today and will emerge tomorrow. This committee was formed to be a catalyst for change in the examination process.

Representatives from each region form the committee consisting of two examiners, three supervisory examiners, a director of special actions and a supervision analyst. Two more examiners may be added.

At the initial meeting September 9, the committee decided the first step is to gather information from the two parties most involved in the examination process - credit unions and examiners. A limited credit union survey is being conducted and an examiner survey is in process. When the information is gathered and processed, the committee will review the findings and prioritize their actions.

John Kennedy, an examiner and committee member from Region I indicates, "The committee is very enthusiastic and optimistic about this opportunity to reshape the examination process. We are not sure where this is going to lead, but we believe the examination performed in five years will significantly and positively differ from the examination of today."

Tell Us What You Think of NCUA's New Strategic Plan

NCUA is asking the credit union community to provide feedback by December 3, 1999, on the strategic plan that NCUA will use as its primary guide in responding to the challenges and opportunities that the agency and credit unions will face in the first five years of the 21st century.

The five-year strategic plan was drafted based on ideas submitted during the summer from NCUA staff and a broad cross-section of the credit union community. NCUA melded the recommendations it received into a plan that sets goals, and includes the strategies, resources and time needed to meet the goals covering a range of issues — emerging technology; electronic commerce; flexible, evolving supervision; competition; expanding service to low-income individuals; and

economic trends — while striving to re-enforce the cooperative ideals that credit unions embody.

As the next step in this inclusion process, NCUA released the draft strategic plan to credit unions, Congress, fellow regulators, state credit union supervisors, and credit union league and trade organizations in an effort to ensure that every possible source has the opportunity to take part in developing the final plan.

Secure a copy of the entire plan from NCUA's web site, <http://www.ncua.gov/org/strategic.html>, or obtain a hard copy by calling 703-518-6625. Provide comments by email to pacamail@ncua.gov, by Fax to Dorothy Foster at 703-518-6429, or by mail to Dorothy Foster, NCUA, 1775 Duke, Street, Alex., Va. 22314-3428.

ABOUT INVESTMENTS

Do You Know the Price of CDs and Securities?

Credit unions often trust their brokers to search for investment alternatives and provide investment opportunities to meet their needs.

However, many credit unions don't realize that the broker's income typically depends on how much the credit union knows.

If a broker can buy a certificate of deposit (CD) for \$99.90 and sell it for \$100, the profit will be 10 cents. If the broker believes you can be persuaded to buy the same CD for \$99, the profit is a dollar for each sale. If you are willing to accept a rate of 4.80 percent and the issuer sold the CD to the broker at 5 percent, the extra 20 basis points is income to the broker.

In addition, if the broker can get away with quoting a rate in simple interest terms rather than the appropriate bond equivalent yield, there is still more money to be made. Multiply these spreads by the large dollar amounts often invested and you can see the possibilities. Brokers make a very good living doing this. What are the remedies?

- Use more than one broker.
- Require all quotes in annual percentage yield or bond equivalent yield.
- Check the Internet at www.federalreserve.gov/releases/H15/update/ or the *Wall Street Journal* to ensure you know the current rates available on CDs and other investments.

To reduce the potential that a broker will skim some of the return without your knowledge, require all CD investments be held at a safekeeper other than the selling broker.



Y2K Q & A

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Electronic Communications

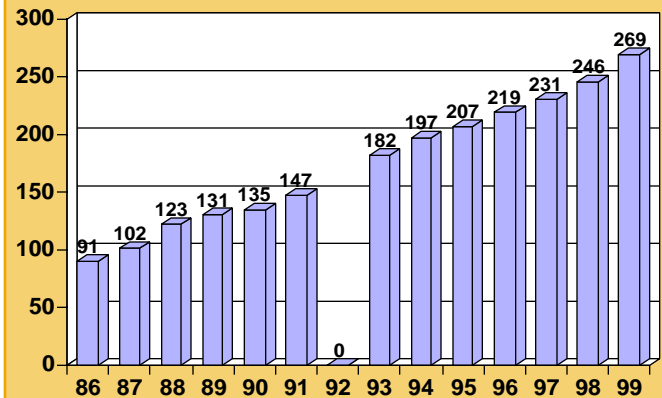
- Greetings on answering machines.
- "On-hold" messages and messages on voice-response systems.
- Information on Internet web sites.
- Video tapes playing in the lobby: the FFIEC recently released a second Y2K video; management should also consider developing their own video message.

Personal Communications

- Speaking engagements at sponsor meetings.
- Participation at Y2K town meetings.
- Y2K seminars at the credit union or sponsor locations.
- "Y2K Fairs" where members can talk to credit union representatives, as well as, representatives from entities outside of the credit union such as: local utilities, local government, police departments, fire departments and hospitals.
- Trained member service representatives that can answer basic questions.
- Trained staff to handle more detailed inquiries.
- Designated staff for press inquiries.

Insurance Premiums Waived

In Millions of Dollars by Year



General Counsel Opinion Letter

The NCUA General Counsel's Office issues opinion letters interpreting agency regulations and policies in response to questions from the credit union community. The summary of a recent opinion letter that NCUA addressed follows. A copy of the letter can be secured from

PACA, 1775 Duke Street, Alex., VA 22314. All NCUA opinion letters appear on the agency web site at www.ncua.gov/ref/opinion_letters.

99-0804 Electronic Disclosures Under TIS Act — With member consent, Truth

in Savings Act disclosures on periodic statements of account can be made electronically. Also with member consent, disclosures covered by both Regulation E the Electronic Funds Transfer Act, and Regulation DD may be sent electronically.

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